HongLeong Investment Bank

HLIB Research
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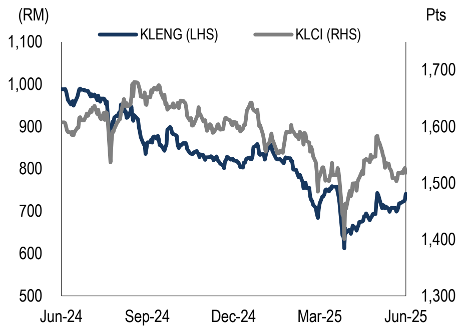
Oil & Gas

OVERWEIGHT (from Neutral)

KLENG



Stock Rating

Stock	Price	Target	Rating
ARMADA	0.49	0.56	BUY
DAYANG	1.93	2.67	BUY
DELEUM	1.54	2.00	BUY
DIALOG	1.57	2.59	BUY
HIBISCS	1.66	1.53	HOLD
MISC	7.50	8.14	BUY
PCHEM	3.33	2.50	SELL
PETDAG	20.94	22.38	BUY
VELESTO	0.19	0.21	BUY
WASCO	0.96	1.71	BUY

Geopolitical risk premium on the rise, again

The Middle East geopolitical unrest caused Brent oil prices to surge 7% and settle at USD74/bbl last Friday. Over the weekend, tensions intensified as Israel expanded its strikes to Iran's critical oil and gas infrastructures. We believe oil price is skewed to the upside in the near-term given rising fear of more widespread attacks on Iran's oil fields and refinery facilities; this could portend higher geopolitical premium on crude oil. Hence, we slightly raise our average Brent oil price forecasts for 2025 to USD67/bbl but retain 2026 assumption at USD70/bbl to reflect higher geopolitical risk premium. Upgrade sector rating to TACTICAL OVERWEIGHT. In our view, sustained Brent prices above USD70/bbl could catalyse short-term re-rating across the sector, particularly for upstream and service-related names. Top picks: Dialog (BUY; TP: RM2.59), Dayang (TP; RM2.67) and Deleum (BUY; TP: RM2.00).

NEWSBREAK

Last Friday, Israel reportedly launched strikes on Iran, targeting military installations and strategic infrastructure. In retaliation, Iran fired ballistic missiles at Israel, with explosions reported in Tel Aviv and Jerusalem. The Middle East geopolitical unrest caused Brent oil prices to surge 7% and settle at USD74/bbl, its highest level in 3 months.

Over the weekend, tensions intensified as Israel expanded its strikes to Iran's critical oil and gas infrastructures. Notable targets included a section of the South Pars gas field, the Shahran fuel depot, and the Shahr Rey oil refinery.

HLIB's VIEW

Iran commands respectable crude output. Iran is one the major crude producing nations in the Middle East region, commanding over 3mbpd of crude output, representing c.3% of global crude production. Of which, c.1.8mbpd are exported, mostly to China. As such, the re-emergence of Middle East conflict has raised geopolitical risk premiums on oil prices given a potential full-blown warfare between Iran and Israel (and potentially involving the US) may stifle Iran's oil producing and refining capacity and put a strain on global supply, in our view.

Upside bias to oil price in the near term. The extent of Iran's crude oil supply disruption is still not yet ascertained at this juncture as we understand that the facilities under attack were mainly the downstream refineries and gas-related facilities. Although Iran's crude supply should remain intact for now, we believe oil price is skewed to the upside in the near-term given rising fear of more widespread attacks on Iran's oil fields and refinery facilities; this could portend higher geopolitical premium on crude oil .

OPEC+'s spare capacity may act as a cushion. Should Iranian crude exports face meaningful disruption, we believe the shortfall could be partially offset by OPEC+'s spare capacity of ~5mbpd, primarily from Saudi Arabia and the UAE. As such, we do not foresee a structural tightening of the oil market as our base case, though volatility may persist.

Fundamentals still unexciting, but premiums creeping in. Assuming no material changes on the supply side, we reckon the oil demand-supply fundamentals still remain lacklustre, dragged by OPEC+'s accelerating production hikes and demand uncertainty caused by US's Liberation Day tariffs (90-day pause to end on 8 Jul). Upside risks include further escalation in the Middle East conflict, trade disruption at the Straits of Hormuz.

Straits of Hormuz blockage the worst-case scenario. Iran sits right next to the Straits of Hormuz, which accounts for 30% of the global seaborne oil trade. We do not rule out Iran closing the chokepoint in the event of a broader escalation in the Middle East conflict. Nonetheless, we believe such worst-case scenario is unlikely to take place. Not only does it cut off its own fuel export revenue, it puts the economic interests of other Gulf states (i.e. Saudi Arabia, Iraq) in jeopardy by curbing their crude exports.

Higher oil price may buoy upstream activity. Although the oil price recovery may not be sustainable, we reckon it could offer some respite to upstream producers like **Hibiscus (HOLD; TP: RM1.53)** given that it has been suffering from depressed realised oil prices since the US Liberation Day announcement in early Apr. Should the oil prices prove able to sustain at above USD70/bbl in the medium term, we believe **Velesto (BUY; TP: RM0.21)** could benefit from better drilling activity pipeline as higher oil price encourages exploration and production works.

Brent oil price forecasts. We slightly increase our average Brent oil price forecasts for 2025 to USD67/bbl but retain 2026 assumption at USD70/bbl to reflect higher geopolitical risk premium in the near term.

Upgrade to TACTICAL OVERWEIGHT. While our base case view on oil market fundamentals are intact (barring any material disruption to Iran's crude production), we are raising our stance to **TACTICAL OVERWEIGHT** (from Neutral) in light of the sharp rebound in oil prices, driven by heightened geopolitical risk. In our view, sustained Brent prices above USD70/bbl could catalyse a short-term re-rating across the Oil & Gas space, particularly for upstream and service-related names. We see compelling risk-reward in select counters trading at undemanding valuations (<10x FY25f PE) and offering attractive dividend yields (>5%), such as Dayang, Velesto Energy and Deleum.

Top picks. We like **Dialog (BUY; TP: RM2.59)** as we believe the eventual award of long-term tank terminal contracts for its PDT phase 3 will help to re-rate the stock. Near-term potentials include storage leases for ChemOne's aromatics plant and Petronas' JV biorefinery. The stock is trading at a reasonable valuation of 16x FY26f earnings (vs 5YR mean of 23x). We switched our second top pick to **Dayang (BUY; TP: RM2.67)** from MISC. We favour Dayang for being an ideal proxy to capitalise on the robust offshore maintenance order pipeline and the persistent shortage of Malaysian-flagged offshore supply vessels (OSV). The stock is trading at an undemanding PE of 8.7x on FY26f earnings and decent dividend yield of 5.2%. Our top pick among the small caps is **Deleum (BUY; TP: RM2.00).** We like Deleum for its (i) projected double-digit earnings growth for our forecast period driven by the increasing demand for gas turbines services and surge in OIS due to several newly awarded contract packages, (ii) its attractive yield (FY25f: 7%) and (iii) an undemanding valuation of 6x FY25f earnings.

Figure #1 **Peers comparison**

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E (x)		P/B (x)		Yield (%)	
						FY25	FY26	FY25	FY26	FY25	FY26
Bumi Armada	2,934	0.49	0.56	BUY	Dec	4.2	4.1	0.4	0.4	2.4	2.4
Dayang Enterprise Holdings	2,038	1.93	2.67	BUY	Dec	9.3	8.7	1.0	0.9	5.2	5.2
Deleum	618	1.54	2.00	BUY	Dec	6.4	5.8	1.1	0.9	7.0	7.8
Dialog Group	8,464	1.57	2.59	BUY	Jun	19.6	16.9	1.3	1.2	2.0	2.4
Hibiscus Petroleum	1,158	1.66	1.53	HOLD	Jun	5.4	4.9	0.4	0.4	4.8	3.6
MISC	33,523	7.50	8.14	BUY	Dec	13.8	13.3	0.9	0.8	4.8	4.8
Petronas Chemicals Group	27,360	3.33	2.50	SELL	Dec	35.6	17.7	0.7	0.7	3.0	3.0
Petronas Dagangan	19,372	20.94	22.38	BUY	Dec	18.7	18.7	3.5	3.4	5.1	5.1
Velesto Energy	1,273	0.19	0.21	BUY	Dec	9.2	8.5	0.6	0.6	6.8	6.8
Wasco	705	0.96	1.71	BUY	Dec	5.6	5.2	0.7	0.6	3.1	3.1
Simple Average						**13.6**	**11.0**	**1.1**	**1.0**	**4.6**	**4.6**

HLIB Research, Bloomberg

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Stock rating guidelines

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guidelines

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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